

## Message Text

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PAGE 01 JAKART 02384 230912Z  
ACTION COME-00

INFO OCT-01 EA-12 ISO-00 EB-08 /021 W  
-----127533 231306Z /47

R 230839Z FEB 78  
FM AMEMBASSY JAKARTA  
TO SECSTATE WASHDC 6982

UNCLAS JAKARTA 2384

E.O. 11652:N/A  
TAGS: BENC, ID  
SUBJ: MAJOR PROJECT: P.T. KRAKATAU STEEL MILL

REF: STATE 041041

1. AS DEPARTMENT IS AWARE, SUBJECT MAJOR PROJECT HAS HAD A LONG AND CHECKERED HISTORY, AND FIGURED PROMINENTLY IN THE 1975 PERTAMINA CRISIS. PHASE I IS SCHEDULED FOR COMPLETION IN 1979, AT WHICH TIME P.T. KRAKATAU WILL HAVE FOUR IRON ORE DIRECT REDUCTION UNITS EACH WITH A RATED CAPACITY OF 500,000 TONS. PHASE I INVESTMENT ESTIMATED AT \$2 BILLION. THE COMPANY PLANS TO USE 500,000 TONS OF PHASE I OUTPUT FOR MANUFACTURE OF STEEL, 500,000 TONS WILL BE SOLD TO OTHER DOMESTIC INDONESIAN STEEL MANUFACTURERS, AN 1,000,000 TONS ARE TO BE EXPORTED. GIVEN PRESENT SHAPE OF WORLD STEEL MARKETS, ATTRACTIVENESS OF 1,000,000 TONS OF DIRECTLY REDUCED IRON ON WORLD MARKETS IS DEBATABLE.

2. THIS ADDS URGENCY TO PHASES II-IV OF PROJECT WHICH WOULD PROCESS INTO STEEL THE 1,500,000 TONS OF IRON TO BE SOLD UNDER PHASE I ARRANGEMENTS TO DOMESTIC AND FOREIGN CONSUMERS. P.T. KRAKATAU OFFICIAL HAS INFORMED US THAT FEASIBILITY STUDY CONCERNING PHASES II-IV IS EXPECTED TO BE COMPLETED BY THIS JULY AND GOI WOULD THEN, PRESUMABLY, ISSUE INTERNATIONAL TENDER ON NEXT PHASE OR PHASES OF THIS PROJECT. HOWEVER, IN ACCORDANCE WITH PAST GOI PRACTICE, IT IS QUITE UNCLASSIFIED

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PAGE 02 JAKART 02384 230912Z

LIKELY THAT TENDER WOULD BE LIMITED TO RELATIVELY SMALL NUMBER OF COMPANIES WITH WHICH GOI IS FAMILIAR. FOR THIS REASON IT WOULD PROBABLY BE USEFUL FOR INTERESTED COMPANIES TO CONTACT P.T. KRAKATAU AS EARLY AS POSSIBLE.

3. REGARDING ROLE OF GERMANS IN UPCOMING PHASES, THERE ARE CONFLICTING REPORTS. THERE IS CONSIDERABLE DISSATIS-

FACTION IN CERTAIN CIRCLES OVER COST OF PHASE I, AND WE ARE INFORMED THAT, PERHAPS AS A RESULT OF THIS, ANY TENDER FOR PHASES II-IV WOULD BE OPEN TO INTERNATIONAL BIDDING. HOWEVER, THERE IS NO DOUBT THAT GERMAN COMPANIES INVOLVED IN PHASE I HAVE HAD OPPORTUNITY TO ESTABLISH THEMSELVES WITH P.T. KRAKATAU AND MUST THEREFORE BE REGARDED AS LEADING CONTENDERS.

4. CONTACT AT KRAKATAU IS MR.T. ARIBOWO, PRESIDENT, P.T. KRAKATAU STEEL, JL. GATOT SOEBROTO KAVELING 54, JAKARTA. ALSO, FOR INFORMATION OF AMERICAN FIRMS, KAISER ENGINEERS HAS SERVED AS TECHNICAL ADVISER TO P.T. KRAKATAU STEEL FOR PHASE I AND EXPECTS TO PERFORM SIMILAR ROLE FOR PHASES II-IV. MR. RICHARD HART, HEAD OF LOCAL KAISER OFFICE,, MIGHT BE ABLE TO PROVIDE USEFUL ADDITIONAL INFORMATION. MR. HART CAN BE CONTACTED AT P.T. KRAKATAU ADDRESS ABOVE.  
MASTERS

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## Message Attributes

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**Review Markings:**  
Sheryl P. Walter  
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